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SUBJECT: SCENESETTER FOR THE VISIT OF PDASD MCMILLAN TO MONTENEGRO

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¶1. (SBU) SUMMARY: Welcome to Montenegro. Your visit comes as the newly re-elected Montenegrin leadership continues a pro-NATO, pro-western stance. The GoM welcomed the positive language about Montenegro in the April NATO Summit Communiqué and now has its sights set on an invitation into MAP by December 2009. In the meantime, the GOM is working to increase public support for NATO membership and is continuing preparations to deploy a peacekeeping unit to ISAF. The GOM formally applied for EU membership in December 2008 and expects to receive a lengthy questionnaire - the next step toward candidate status - this summer. The economy has been fueled heavily by Foreign Direct Investment (FDI) in the tourism sector, but growth is expected to stagnate in 2009 due to the global economic crisis. The GoM remains a receptive interlocutor, eager to develop strong ties with Washington and to prove itself a reliable partner (e.g., it recognized neighboring Kosovo in October 2008). Montenegro still has work to do in improving its record on rule of law issues. END SUMMARY

Stable, Pro-Western Democracy

¶2. (SBU) Montenegro has come a long way in the three years since independence from the state union with Serbia. The country has held democratic elections, built state institutions, privatized and grown its economy, adeptly managed relations among its ethnic groups (Montenegrins, Serbs, Muslims, Bosniaks, Albanians, Croats, Roma, and others), and launched an ambitious drive for full Euro-Atlantic integration. There is a general societal consensus for EU membership (although not yet for NATO), and the Government is wholeheartedly gunning for early accession to NATO and the EU. Moreover, none of the complex obstacles tripping up other non-NATO Balkan states (constitutional issues, name disputes, recognition, ICTY, Kosovo, etc) stands between Montenegro and achievement of this goal.

¶3. (SBU) A few possible bumps lie in the road, however. One is Montenegro's small size. Despite its progress, it has had difficulty getting the attention of some of its Western partners. Secondly, some European states continue to lean in the direction of instinctively lumping Montenegro in with other countries in the region, rather than fostering Montenegro as a positive model that can have a "pulling effect" on other Balkan states lagging behind. Finally, Montenegro has a major

challenge in overcoming an at least partly-deserved reputation for problems in the rule of law area.

¶4. (SBU) Pre-term parliamentary elections in late March resulted in a landslide victory for Prime Minister (PM) Djukanovic's ruling Democratic Party of Socialists (DPS) - Social Democratic Party (SDP) coalition - now including Bosniak and Croat parties - over a fragmented and fractious opposition. As was the case with the 2006 independence referendum and subsequent polls, the OSCE assessed this election as generally meeting international standards. In addition to addressing domestic consequences of the global financial crisis, PM Djukanovic -- now heading the GoM for the sixth time -- has pledged to intensify Montenegro's drive for EU and NATO membership.

Strong Bilateral Relationship

¶5. (SBU) Montenegro's pro-American leadership views us as a strategic ally and is genuinely grateful for critical U.S. assistance which helped keep the country afloat after Montenegro broke with Milosevic in the late 90s. The GoM generally supports U.S. priorities, sometimes at considerable political risk. For example, the GoM is enthusiastically pursuing NATO membership despite limited public support, and it recognized Kosovo in October 2008 over virulent domestic opposition and dire warnings from neighboring Serbia.

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¶6. (SBU) In addition, since independence, Montenegro has signed Article 98 and Status of Forces agreements and destroyed almost 90 percent of its Man Portable Air Defense Systems (MANPADs) under a USG program. In September 2007, at the USG's behest, Montenegro donated more than 1,500 small arms weapons and 200,000 rounds of ammunition to Afghanistan. In December 2007, it signed a transit agreement allowing NATO to supply KFOR. None of these actions was domestically popular.

¶7. (SBU) In October 2007, at the USG's request, the GoM committed to send troops from its fledgling military to Iraq. Before that commitment could be fulfilled, the GoM agreed to a new USG request to deploy an infantry platoon to the International Security Assistance Force (ISAF) mission in Afghanistan. In late April, Montenegro contracted U.S. firm MPRI to train two platoons, one of which is expected to deploy with a Hungarian unit based in Pol-i-Khomri under the command of German-led Regional Command (North) (RC(N)) by the end of the year (the other will rotate in after four months). An MPRI training team is currently in Montenegro. Montenegro also has a three-man medical team ready to deploy (with parliamentary approval) now. Montenegro's MoD is in active negotiations with Norway, Hungary and Germany to deploy its medical team. Additionally, Montenegro plans to deploy two liaison officers (LNO) to the RC (N) headquarters in Mazar-e-Sharif by September 2009.

Focused on NATO and EU Integration

¶18. (SBU) EU and NATO membership are the GoM's top strategic goals. Montenegro was invited to Intensified Political Dialogue at the NATO Bucharest Summit in April 2008 and began a government-wide NATO Communications Strategy to increase support for membership among the population. Montenegro continues to make forward progress in establishing its nascent defense institutions and future military structure, which was reflected in the positive PARP assessment earlier this year. Montenegrin officials were further encouraged by the positive statements on Montenegro in the NATO communique in April. The GoM now hopes to receive a MAP invitation at or before the December NATO ministerial, and initial soundings suggest that Allies believe this is achievable.

¶19. (U) Following independence, and unlike most other ministries in the GoM, the Ministry of Defense (MoD) -- led by Minister of Defense Boro Vucinic -- has had to build its organization from the ground up. Developing its human resource capacity is proving to be perhaps its biggest challenge. Other challenges include prioritizing requirements, building the legal and regulatory framework for its volunteer force, and establishing a functioning procurement system.

¶10. (U) The Montenegrin Armed Forces are led by Chief of Defense Admiral Dragan Samardzic, who has staked out a decidedly pro-NATO orientation. Montenegro inherited an outdated, ill-equipped military that is still working to organize itself as a modern, NATO-interoperable force capable of contributing to force projection and peacekeeping operations. The latest Montenegrin Strategic Defense Review (SDR) calls for a 2400-person force (plus 300 reservists) structure under a combined service of naval, ground, and air assets. The current force structure is significantly below even this modest level. Their goal is a combat capable, fully professional force which serves their nation not only in operations outside its borders, but also is capable of homeland defense, assisting the Ministry of Interior in crisis management.

¶11. (SBU) Public support for NATO is still somewhat tepid, in significant measure due to memories of the 1999 NATO intervention. According to recent polls, public support stands slightly above 30 percent, with another 40 percent opposed, and the remainder undecided. The GoM, assisted by a variety of local NGOs, has initiated an aggressive communications strategy

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to increase public support for membership.

¶12. (U) Public support for EU membership, however, is widespread. Montenegro applied for candidate status in the EU in December 2008. In April, the European Commission initiated steps for an assessment (the "avis") of Montenegro's suitability, which could eventually result in Montenegro being granted formal candidate status, perhaps in the latter part of 2010.

Aiming to Play a Positive Regional Role

¶13. (SBU) Montenegro has been a constructive regional player, building good relations with all its neighbors. It actively participates in numerous regional initiatives (such as CEFTA, which it currently chairs, SECI, the Stability Pact, etc). Montenegro and Croatia recently agreed to refer a dispute over their maritime border (at the entrance to Kotor Bay) to the ICJ, offering a potential model for resolution of similar disputes elsewhere in the region.

¶14. (SBU) The GoM recognized Kosovo in October 2008 over widespread opposition, including demonstrations in Podgorica and towns across Montenegro. Ethnic Serbs, a third of the population, were particularly incensed. The GoM put off establishing diplomatic relations with Pristina until after the March elections and continues to treat the issue gingerly. Nevertheless, the governments of Montenegro and Kosovo continue to interact regularly at senior levels, and there has been substantial cooperation among police, border, and customs officials. Moreover, the GoM joined us in supporting Kosovo's membership in the IMF and World Bank. Foreign Minister Rocen repeatedly has assured us that Podgorica will establish official diplomatic relations by the end of the year.

¶15. (SBU) Kosovo recognition has strained official relations with Serbia, which promptly expelled Montenegro's ambassador last October. However, bilateral trade and working level cooperation in other areas have continued. Moreover, President Vujanovic met with Serbian President Tadic in May, the first presidential visit since Montenegro's independence in 2006. Since then the two Presidents have seen each other on at least two additional occasions. The Presidency tells us that the GoM will appoint a new Ambassador to Serbia soon.

Achilles Heel: Rule of Law?

¶16. (SBU) Montenegro has made significant progress in overcoming its 1990s reputation as an organized crime hub. According to Transparency International and Freedom House rankings, it is roughly even with many of its neighbors in corruption perceptions (as well as in most other democracy measures). However, as in other transition countries, it still faces significant rule of law challenges.

¶17. (SBU) Montenegro is located at an historic smuggling crossroads, and law enforcement officials and the judiciary are underfunded and underequipped. The small size of the country and the lengthy tenure of the ruling parties have generated many allegations of cronyism and nepotism. Many Montenegrins list corruption among the country's biggest problems, and some worry that the ruling coalition's dominance will dampen the GoM's desire to vigorously identify and prosecute graft. In this process, implementation of existing legislation will be key and the GoM is issuing semiannual reports on its progress.

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¶18. (SBU) Montenegro's economy, fueled by a boom in coastal tourism and investment, expanded rapidly over the past few years. During this period the GoM also tamed inflation, moved closer to WTO membership, privatized almost 90 percent of the economy, and created a generally business-friendly environment. The result has been the highest per capita rate of FDI in the region.

¶19. (SBU) Although we recently helped establish an AmCham and a U.S.-Montenegro Business Council, U.S. trade and investment remain at disappointingly low levels. However, the GoM plans billions of Euros worth of tenders over the next two years in infrastructure, tourism, and energy, and is eagerly courting U.S. investors, in part to balance against heavy Russian investment, most of which occurred earlier in the decade. (In 2008, Russia ranked number one in terms of aggregate FDI to date). We have not seen indications that the Russian economic presence has translated into political or diplomatic influence.

¶20. (SBU) Montenegro's narrow economic base makes it vulnerable to the global economic crisis, which is expected to bring growth (eight percent in 2008) to a virtual standstill this year. Montenegro's largest employer, a Russian-owned aluminum plant, is near bankruptcy, tourist numbers are down (tourism accounts for about 20 percent of GDP), the country's largest domestic bank (majority-owned by the PM's family) required a bailout in December, and the rest of the banking sector remains vulnerable.

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